October 27, 2016

Whilst your individual returns are with you, I would like to share how we think about on performance on the portfolios managed by me at Jeetay.

1) We look at a "representative" portfolio. Most of the older portfolios usually have in the past had performance numbers clinging around the numbers of the "representative" portfolio. Newer portfolios take time to build up and usually mask true performance and may even distort it. This "representative" portfolio is that of our oldest client.

2) We benchmark our returns against the Sensex. We are size agnostic but usually find values in the mid-cap space. However we carry fairly large amounts of cash and so a mid-cap index may not be the right benchmark. We have chosen the Sensex to give you a sense of the "opportunity cost" of not being in the market and not as some sort of a competitor with whom we are in a quarterly rat race.

3) Short-term underperformance does not bother us and short-term outperformance does not excite us. What should count are long-term figures. Our idea of the long-term is <u>very</u> long. We will be honest – we do not have performance figures for our definition of the long-term. So we have sliced the performance figures into various shorter-term horizons, to suit <u>your</u> perspective of what should be a sensible investment horizon.

4) We usually measure the cheapness of our portfolio in relation to each security's historical valuations and not against the current market valuation i.e. we would like to have some sort of absolute cheapness and not relative cheapness.

5) The figures cited are before taxes and fees. This is because the taxes are paid by you and vary depending on whether you have short-term capital losses and the quantum of short term gains. The fee structure varies due to 1) different plans 2) different entry points (high watermarks). These should shrink the magnitude of outperformance, although not eliminate it.

6) We do not only look at returns, but at <u>risk-adjusted</u> returns. We do not measure risk by simple volatility, but by downside volatility, drawdowns and portfolio cheapness. On a risk-adjusted basis, our returns, even after taxes and fees, should compare well with the Sensex. Since we believe that markets are unforecastable, we usually hedge our positions by carrying fairly large amounts of cash.

7) We continue to use the "representative" account methodology so as to be consistent (Tables 1, 2 and 3).

8) We have found that the "representative" account, which has been that of our oldest account, now has a different portfolio composition from newer accounts

and even some of the older accounts. It may thus in the future not properly track overall performance. We have included Table 4 in which four sets of figures are shown:

a) The "representative" portfolio returns.

b) The weighted average returns of all the discretionary portfolios managed under the Jeetay Value Plan and allied Plans in the Jeetay PMS.

c) The weighted average returns of those portfolios with over 60% equity at any point since inception. These may be generically thought to be the "older" portfolios since "newer" portfolios take some time to build up and may not be representative of portfolio performance. They are of course included in the weighted average returns of all the portfolios.

d) The Sensex returns.

9) We will therefore be reporting "weighted average" returns along with those of the "representative" portfolio.

10) Should you find all these numbers too intimidating but want to focus only on a few, just look at the second and fourth columns of Table 4. That summarizes the overall performance of portfolios managed by me at Jeetay and the Sensex.

Table 1

Since Inception				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
June 07, 2003 to June 07, 2004	80.80%	48.00%	Almost fully invested	Audited
July 05, 2004 to June 30, 2005	31.45%	42.10%	Around 65%	Audited
July 01, 2005 to March 31, 2006	30.32%	56.80%	Around 40%	Audited
April 01, 2006 to March 31, 2007	33.73%	15.62%	Around 20%	Audited
April 01, 2007 to March 31, 2008	7.41%	18.60%	Around 30%	Audited
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited

*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.50%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to March 31, 2014	18.22%	18.85%	Around 15%	Audited
April 01, 2014 to March 31, 2015	73.63%	24.89%	Around 9%	Audited
April 01, 2015 to March 31, 2016	17.88%	-9.34%	Around 1%	Audited
April 01, 2016 to June 30, 2016	7.70%	6.54%	Around 1%	Audited
July 01, 2016 to September 30, 2016	1.96%	3.21%	Around 3%	Audited
Cumulative Return	**2097.74%**	**705.39%**		

Table 2

Since 2008				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited
*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.50%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited

April 01, 2013 to March 31, 2014	18.22%	18.85%	Around 15%	Audited
April 01, 2014 to March 31, 2015	73.63%	24.89%	Around 9%	Audited
April 01, 2015 to March 31, 2016	17.88%	-9.34%	Around 1%	Audited
April 01, 2016 to June 30, 2016	7.70%	6.54%	Around 1%	Audited
July 01, 2016 to September 30, 2016	1.96%	3.21%	Around 3%	Audited
Cumulative Return	**394.01%**	**78.11%**		

Table 3

Since 2014				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
April 01, 2014 to March 31, 2015	73.63%	24.89%	Around 9%	Audited
April 01, 2015 to March 31, 2016	17.88%	-9.34%	Around 1%	Audited
April 01, 2016 to June 30, 2016	7.70%	6.54%	Around 1%	Audited
July 01, 2016 to September 30, 2016	1.96%	3.21%	Around 3%	Audited
Cumulative Return	**124.76%**	**24.50%**		

Table 4

Jeetay Returns** (Portfolios managed under the Jeetay Value Plan and Allied Plans)

	"Representative" portfolio	**Weighted average returns of all discretionary portfolios**	**Weighted average returns of "older" portfolios**	**Sensex Returns**
2006-2007	33.73%	**28.66%**	30.11%	**15.62%**
2007-2008	7.41%	**7.12%**	8.68%	**18.60%**
2008-2009	-22.26%	**-23.85%**	-23.85%	**-37.94%**
2009-2010	85.16%	**78.40%**	79.00%	**80.50%**
2010-2011	29.09%	**18.57%**	18.40%	**10.93%**
2011-2012	9.03%	**3.32%**	3.07%	**-10.50%**
2012-2013	-8.23%	**-2.12%**	-2.77%	**8.23%**
2013-2014	18.22%	**18.20%**	18.30%	**18.85%**
2014-2015	73.63%	**66.43%**	66.97%	**24.89%**
2015-2016	17.88%	**4.29%**	4.27%	**-9.34%**
April 01, 2016 - September 30, 2016	9.81%	**14.91%**	14.82%	**9.96%**

**Returns are before fees but after all other expenses

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Good capital allocation is vital to long term wealth creation, but improvements in capital allocation are an important element in the re-rating of a company's stock. Many large Indian companies are moving in that direction, where the emphasis seems to be on improving returns on capital employed and restructuring assets and liabilities, rather than on assets and sales growth. If executed well, significant potential for re-rating and wealth creation is possible.

How important is growth to wealth creation? A lot has been written on the subject, but much has been misunderstood. There is nothing better than a business that can grow profitably and fast with minimal capital. Such businesses are rare. But slow growers can also be great wealth creators if they distribute all their surplus free cash flows and these are re-invested well by investors. Obviously purchase price matters, but dividend yields and dividend payout policies matter more. Value investors should never forget that the speculative component of the purchase price increases with the component paid for growth.

The durability of a business model is another seductive mantra. The history of innovation is a story of David v/s Goliath and the assumption of long durability based on existing entry barriers is another way of rationalising a huge speculative component in the purchase price of an investment. The concept of durability is an exercise in imagination, not in anything that is empirical. Probably induction at its worst!

I would like to wish you all the best in the festive season ahead.

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Should there be any queries, I'm always available. Please do not hesitate to contact me or members of the Jeetay team who look after the administration at the office – Divya, Rashmi or Prem!

Warm Regards,

Vinay Parikh